

Tobacco dispute simmers

Payments not made to farmers may create pressure on legislators



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A dispute over money that Kentucky farmers have not received under a settlement with tobacco companies may end up being a hot-button issue for the General Assembly during the 30-day legislative session that starts today.

Speaking at a meeting of fruit and vegetable growers in Lexington yesterday, Keith Rogers, executive director of the governor's office of agricultural policy, said some legislators are discussing using state money from the 1998 master settlement agreement to cover separate payments due farmers in 2004.

"This is something that's going to be a serious topic of discussion during the short session," Rogers said.

Kentucky law requires the state to cover so-called Phase II payments from tobacco companies if they fall short of \$114 million a year. The difference is to be paid from the half of the state's master settlement money used to help farmers find alternatives to tobacco.

But that pool of money, also known as Phase I, would not come close to covering the potential deficit resulting from a North Carolina judge's ruling last month.

Kentucky farmers and owners of quota — the license to raise tobacco — had counted on Phase II payments of about \$124 million at the end of last year.

They haven't received any money because North Carolina Judge Ben Tennille ruled that tobacco companies don't have to make the last of the payments, which are being halted under a federal buyout.

Kentucky and six other states have appealed the ruling.



BY MARY ANN GERTH, THE COURIER-JOURNAL
Kentucky's tobacco farmers and tobacco quota holders had counted on Phase II payments of about \$124 million at the end of 2004 but haven't received them yet. Above, Sergio Lima carried tobacco in a Shelby County grower's barn last month.

Quick take

Last we knew

The state may face a big hole in its budget because of a North Carolina judge's ruling that released tobacco companies from making payments to farmers in 14 states.

The latest

A state official said yesterday that some lawmakers are discussing using Kentucky's share of money for farmers diversifying away from tobacco to cover any shortfall in the payments.

Why it's news

Kentucky farmers are counting on \$124 million in payments they did not receive in 2004.



Rogers said farmers could know this week how long the appeals process will take.

Meanwhile, Rogers said the Phase II situation is one of Kentucky farmers' top concerns.

"Anytime that you take \$124million out of Kentucky's agricultural economy, it's going to hurt," Rogers said. "It's going to hurt big, and it's going to hurt broad and wide. It's going to hurt individuals, some worse than others."

Tim Perry, who raises tobacco in Shelby County with his uncle, said he's counting on \$6,000 in Phase II payments for 2004. Perry plans to continue growing leaf after the buyout and recently spent \$45,000 to build a barn to house tobacco.

"That would make my barn payment," he said. "That would make my lease payment."

The loss of Phase II payments "is going to hurt big time. That was income. We got spoiled. We were promised that income."

"That Phase II payment — everybody is thinking that it's due to be ours," said Charles Wright Sr., a Springfield, Ky., farmer who raised 6,000 pounds of leaf last year. "I think we ought to have it. There's a world of people who are counting on it."

The payments stem from a 1999 settlement between tobacco companies and 14 states to compensate farmers for losses they would incur because of higher cigarette prices.

Under the 1998 master settlement, tobacco companies settled lawsuits with dozens of states over smoking-related health costs and agreed to make payments to the states over 25 years.

In Kentucky half of the payments go to the Agricultural Development Fund's efforts to diversify away from tobacco. Since the fund's inception in 2001, more than 1,900 projects have received more than \$167 million in Phase I funding.

Rogers said the fund receives about \$54 million a year, with about \$20 million earmarked for projects by the General Assembly. That leaves about \$34 million a year that could be used to cover a possible Phase II deficit.

One proposal that's been mentioned is issuing bonds to cover any such shortfall, said Rep. Jim Wayne, D-Louisville. But Wayne hopes that the tobacco states will win their appeal of the North Carolina ruling, and the legislature won't have to get involved.

"I think what we'll be looking at when we do a lot of work on the budget in January is whether the statute actually requires the payment of Phase I money: if it does — how we're going to handle that, if it doesn't — whether it's still an issue or not," said Rep. Harry Moberly Jr., D-Richmond, the House Budget Committee chairman.



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